

**SUBJECT: FISCAL YEAR 2003-04 BUDGET BALANCING**

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**INTRODUCTION**

The budget balancing challenge for the coming fiscal year is complicated by uncertain revenue estimates based on an economy in flux, potential State actions and unavoidable cost increases in the delivery of services. Recommendations presented in this document will balance next fiscal year's budget and address these uncertainties in a strategy consisting of ongoing revenue increases and expenditure decreases, an Economic Stabilization Contingency to provide a level of protection against revenue fluctuations and State budget impacts and a contingency plan for further expenditure reductions if necessary. Reserve balances may also facilitate an orderly reduction of services and to fund nonrecurring costs as necessary.

The current fiscal year budget included a number of changes in the way certain costs are funded in order to reduce the expenditure burden on the General Operating Fund. There are limited opportunities remaining to use this approach other than moving costs that may or may not occur, such as a portion of outside legal services, to one-time funding. Reserves are recommended to be used to facilitate the transition of City operations to a lower level of expenditure if State actions and declining revenues exceed the Economic Stabilization Contingency balance and to mitigate the impacts on affected staff. Reserves are not a solution to the budgetary constraints expected to last for several years, but are a means of transitioning to solutions. Attachment J describes the City's reserve structure and recommended uses of reserves.

## **ANALYSIS**

### **Calculating the Shortfall**

The estimated shortfall next fiscal year with a "status quo" budget is determined by comparing the costs of maintaining the current level of services, adding unavoidable and recommended increases, and subtracting total costs from projected revenue as follows (amounts in thousands):

#### Revenues

Fiscal Year 2003-04 Projected Revenue	\$ 70,439
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#### Expenditures

Fiscal Year 2003-04 Base Budget	<u>70,789</u>
	(350)

#### Unavoidable Cost Increases

Compensation and Benefits:	
— Health and Other Benefits—All Employees	345
— Nonsafety Retirement/Compensation	499
— Police/NPOA/Fire Labor Agreements	1,601*

Total Unavoidable Increases	<u>2,445</u>
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Budget Shortfall Without Contingencies	(\$ <u>2,795</u> )
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\* Includes up to 6.0 percent COLA/equity adjustment.

### **Unavoidable Cost Increases**

#### **Compensation and Benefits**

Various health, dental and other employee benefit insurances for all employees are expected to increase next year. Health insurance is anticipated to rise over 20.0 percent with employee cost sharing also rising. The estimates above are reduced by the amount of the employee share of cost. Expenditures for health and other insurances are based

on estimates and will not be known with certainty until May. It is possible these assumptions are slightly low.

For Fiscal Year 2003-04 contractual agreements that continue for several years with Fire and Police include an up to 6.0 percent COLA and equity adjustments based on the average compensation of cities identified in the specific MOU. The contract with the Fire union provides for employees to pay 50.0 percent of the City's increased PERS rate for the 3 percent at 50 retirement benefit by reducing the COLA. Represented Police staff will pay 50.0 percent of the City's increased PERS rate starting in Fiscal Year 2004-05. Nonsworn Police Department employees will receive a 4.5 percent COLA based on their agreement.

The SEIU contract expires on June 30, 2003 and will be renegotiated this spring.

Staff will work with SEIU and unrepresented employees to avoid a COLA increase in the coming fiscal year. However, it is recommended that employees in lower paid classifications that are eligible to receive 'step increases' (i.e., those that are not at the highest step) receive step increases.

The cost of a 1.0 percent COLA for nonsafety represented and unrepresented staff is approximately \$284,000 and would add to the shortfall and depth of cuts necessary to balance the budget.

### Significant Changes

Very limited increases are recommended in a few departments that are more than offset by budget reductions. Many increases are offset by revenue; significant changes, net of associated revenue, total \$158,000. Significant changes are described in the department-by-department section of this report.

## **Balancing Approach**

The overall approach to closing the budget shortfall is a combination of the following proposals (amounts in thousands):

Budget Shortfall (\$2,795)

### Revenue Increases

• Cable Franchise Revenue	\$ 280
• New/Increased Revenue Proposals	<u>514</u>
Total Revenue Adjustments	<u>794</u>

### Expenditure Reductions

• Reduce Equipment Replacement Budget	(500)
• Reduce Capital Outlay Budget	(200)
• Significant Changes	158
• Operating Budget Reductions	<u>(4,237)</u>
Subtotal—Expenditure Reductions	<u>\$4,779</u>

Total Recommended Budget Adjustments 5,573

Economic Stabilization Contingency \$2,778

## **CONCLUSION**

Budget recommendations for next fiscal year result in an Economic Stabilization Contingency of approximately \$2.8 million to mitigate the fiscal impacts of State actions or declining revenue. As indicated, this contingency will also serve as a buffer against further budget cuts impacting filled positions and lays the groundwork for further reductions in future years. This is a conservative plan that does not result in immediate layoffs, draconian reductions or eliminations of key City services.

RFL/BUD  
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